Message Text

PAGE 01 STATE 010394

61
ORIGIN EB-07

INFO OCT-01 EUR-12 EA-06 ISO-00 AEC-05 AID-05 CEA-01

CIAE-00 CIEP-01 COME-00 DODE-00 FPC-01 H-01 INR-07

INT-05 L-02 NSAE-00 NSC-05 OMB-01 PM-03 RSC-01 SAM-01

OES-03 SP-02 SS-15 STR-01 TRSE-00 FRB-01 FEA-01 TAR-01

IO-10 NEA-09 OPIC-03 LAB-04 SIL-01 /116 R

DRAFTED BY EB/ORF/FSE:SWBOSWORTH:PDTAYLOR:MEP
APPROVED BY EB - MR. THOMAS O. ENDERS
--------------------- 045629
P 160059Z JAN 75
FM SECSTATE WASHDC
TO USMISSION OECD PARIS PRIORITY
AMEMBASSY BERN PRIORITY
AMEMBASSY BONN PRIORITY
AMEMBASSY TOKYO PRIORITY

C O N F I D E N T I A L STATE 010394

E.O. 11652: N/A

TAGS: ENRG

SUBJECT:IEA: SLT CHAIRMAN'S DRAFT DISCUSSION PAPER ON INTERNATIONAL COOPERATION IN ACCELERATED DEVELOP- MENT OF ENERGY

1. OECD PARIS PLEASE PASS THE FOLLOWING TEXT TO THE IEA SECRETARIAT FOR DISTRUBTION TO MEMBER GOVERNMENTS.

2. BERN, BONN AND TOKYO PLEASE PASS COPY OF TEXT TO ROBERT MADORY, MINISTRY OF ECONOMICS AND COMMERCE; WERNER BIRNER, ECONOMIC MINISTRY; AND HISASHI HOSOKAWA, MITI, RESPECTIVELY, WHO PARTICIPATED IN DRAFTING PRESENT TEXT.

CONFIDENTIAL
CONFIDENTIAL

PAGE 02 STATE 010394

3. BEGIN TEXT.
TITLE: INTERNATIONAL COOPERATION IN ACCELERATED DEVELOP- MENT OF ENERGY

INTRODUCTION: THIS PAPER IS BEING DISTRIBUTED BY THE CHAIRMAN OF THE STANDING GROUP ON LONG-TERM COOPERATION FOR DISCUSSION AT THE JANUARY 23-24 MEETING OF THE SLT. IT DOES NOT REPRESENT THE POSITION OR VIEWS OF ANY GOVERNMENT. IT IS DESIGNED ONLY TO FACILITATE THE SLT'S EXAMINIATION OF SOME OF THE MAJOR AREAS OF POSSIBLE IEA COOPERATION IN THE ACCELERATED DEVELOPMENT OF NEW ENERGY SUPPLIES.

I. WHY ACCELERATE THE DEVELOPMENT OF ENERGY?
OUR STRATEGY TOWARD THE DEVELOPMENT OF NEW ENERGY SUPPLIES MUST BE MEASURED AGAINST THE FOLLOWING OBJECT-IVES:
1. TO ASSURE AN ADEQUATE SUPPLY OF ENERGY TO REDUCE THE VULNERABILITY OF OUR COUNTRIES TO AN INTERRUPTION OF OIL IMPORTS. IN LIGHT OF THIS SECURITY OBJECTIVE, OUR GEOGRAPHIC PRIORITIES FOR INVESTMENT SHOULD BE (A) IEA AREA, (B) NON-IEA, NON-OPEC AREA, (C) OPEC AREA.
2. IMPROVE THE WORLD SUPPLY/DEMAND RELATIONSHIP IN OIL. THIS SHOULD EVENTUALLY EXERT A DOWNWARD PRESSURE ON WORLD PRICE AND RELIEVE THE STRAINS PRESENT PRICES IMPOSE ON THE INDUSTRIALIZED DOMOCRACIES.
3. REDUCE THE IEA'S DEPENDENCE ON IMPORTS. ACHIEVE-MENT OF THIS OBJECTIVE WOULD IMPROVE THE CLIMATE FOR OUR DIALOGUE WITH PRODUCERS.

II. IS THE MARKET EQUIPPED TO STIMULATE SUFFICIENT DE-VELOPMENT?
PART OF OBJECTIVE NUMBER ONE, SECURITY OF SUPPLY, CAN BE MET THROUGH SECURITY STORAGE AND EMERGENCY SHARING (IEP). BUT THESE MEASURES DO NOT RESOLVE THE PRICE QUESTION.

SIMILARLY, THE PRICE PROGRAM AND THE HEMORRHAGE OF WESTERN ECONOMIC RESOURCES COULD BE MODERATED EITHER BY A DECLINE IN OPEC PRICES AND/OR THE AVAILABILITY OF SUB-STANTIAL NEW SUPPLIES FROM NON-OPEC SOURCES. BUT THERE IS VIRTUALLY NO LIKELIHOOD THAT OPEC WILL LOWER PRICES

UNILATERALLY. AN ANALYSIS OF NEW NON-OPEC SUPPLY POSSIBILITIES INDICATES THAT THAT PORTION COMING FROM OUTSIDE THE IEA GROUP WILL PRESUMABLY BE SOLD AT THE OPEC PRICE AND THAT IT WILL NOT BE AVAILABLE IN SUFFICIENT QUANTITY BY 1985 TO SHIFT THE WORLD SUPPLY/DEMAND BALANCE SIGNIFICANTLY.

PRESENT ANALYSIS INDICATES THAT, WITHOUT SOME CON-CERTED ACTION BY THE MAJOR OIL IMPORTING COUNTRIES TO ACCELERATE CURRENT TRENDS IN SUPPLY AND DEMAND, THE OIL PRODUCERS WOULD BE ABLE TO HOLD CURRENT REAL PRICES AND

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006

MAINTAIN THEIR DOMINANT SUPPLY POSITION INTO THE 1980'S.

THEREFORE, OUR SUCCESS IN MEETING THESE THREE OBJECTIVES WILL REQUIRE ACTION BY MAJOR IMPORTERS TO GREATLY REDUCE DEPENDENCE ON IMPORTED OIL.

MARKET FORCES ALONE CANNOT, HOWEVER, BE EXPECTED TO ACHIEVE OUR THREE OBJECTIVES.

III. GOVERNMENTAL ACTION TO ACCELERATE DEVELOPMENT.
PROGRAMS TO ACCELERATE DEVELOPMENT OF NEW ENERGY ARE POSSIBLE THROUGH BOTH NATIONAL POLICIES AND INTERNATIONAL EFFORTS.

NATIONAL POLICIES WHICH REFLECT THE SITUATION OF EACH COUNTRY AND ARE COMPRISED OF THE MEASURES CHOSEN BY EACH GOVERNMENT MUST MAKE A CRITICAL CONTRIBUTION TO OUR OVERALL EFFORT. THESE PROGRAMS CAN BE USEFULLY REINFORCED BY A REGULAR PROCEDURE FOR SLT REVIEW OF NATIONAL ENERGY POLICIES OF MEMBER COUNTRIES. SUCH NATIONAL PROGRAMS WOULD INCLUDE THOSE INTENDED TO ACCELERATE DEVELOPMENT OF NEW ENERGY AND THOSE TO REMOVE OBSTACLES RELATED, ESPECIALLY, TO ENVIRONMENTAL FACTORS, CONSERVATION AND FINANCE.

INTERNATIONAL PROGRAMS COULD LEND FURTHER ENCOURAGEMENT TO NEW ENERGY DEVELOPMENT BY PROVIDING A FRAMEWORK FOR SHARING THE BURDENS AND BENEFITS OF EFFORTS TO DEVELOP NEW ENERGY SUPPLIES. SUCH INTERNATIONAL PROGRAMS WOULD BE DIRECTED TOWARD THE BENEFITS ENUMERATED IN THE

FIRST SECTION OF THIS PAPER. (GENERAL AND SPECIFIC APPROACHES ARE DISCUSSED IN SECTION VI BELOW) ADDITIONALLY, MEANS MIGHT BE FOUND TO PROVIDE MEMBER COUNTRIES THE SPECIFIC BENEFITS OF PARTICIPATION IN JOINT ENERGY PROJECTS INCLUDING FINANCING AND ASSURED ACCESS TO SUPPLIES AND MARKETS. IN THIS WAY, PARTICIPATING CONSUMERS COULD GAIN PROTECTION AGAINST INCREASED WORLD PRICES AND SUPPLY UNCERTAINTY WHILE INVESTORS COULD OBTAIN PROTECTION AGAINST THE RISK OF DOWNWARD PRICE UNCERTAINTY. THE RAPID INITIATION OF CONCRETE JOINT PROJECTS WOULD BRING SUBSTANTIAL BENEFITS.

IV. PRICE RISK
THE ABRUPT AND MASSIVE INCREASE IN OIL PRICES HAS BEGUN TO BE REFLECTED IN A MAJOR SHIFT IN THE WORLD SUPPLY/DEMAND BALANCE FOR OIL. THE OECD'S LONG-TERM ENERGY ASSESSMENT SHOWS THAT FOR THE OECD AREA A CONTINUATION OF PRESENT REAL PRICES THROUGH 1985 WOULD RESULT IN A LOWER LEVEL OF TOTAL IMPORTS FOR THAT YEAR THAN IN 1972.

HOWEVER, WE FACE A PARADOX. IF THE SUPPLY/DEMAND BALANCE FOR OIL CONTINUES TO SHIFT SO RADICALLY, THE LIKELIHOOD INCREASES THAT AT SOME POINT, FACED WITH A DECLINING OECD DEMAND AND RISING EXPORTS FROM NEW NON-OECD SUPPLIERS, THE WORLD OIL PRICE WILL FALL.

THE PRESENT WORLD PRICE OF OIL AS BEEN DETERMINED ADMINISTRATIVELY BY A SMALL GROUP OF PRODUCING COUNTRIES

AT A LEVEL FAR IN EXCESS OF PRODUCTION COSTS. THIS LARGE DIFFERENTIAL BETWEEN THE COST OF PRODUCING THEIR PRODUCT AND THE PRICE THEY CHARGE FOR IT GIVES PRODUCERS ENORMOUS COMMERCIAL POWER WHICH COULD BE USED, FOR EXAMPLE, TO EFFECT PREDATORY PRICES AND DRIVE INVESTORS IN NEW ENERGY OUT OF BUSINESS.

THE EXTENT TO WHICH THIS PRICE UNCERTAINTY MAY INHIBIT INVESTMENT DEPENDS IN LARGE MEASURE ON THE COST OF PRODUCTION OF THE NEW ENERGY SOURCE CONCERNED. THE HIGHER THE COST OF PRODUCTION, THE GREATER THE DEGREE OF POTENTIAL RISK, AND THE GREATER THE POSSIBILITY THAT INVESTMENT

WILL BE INHIBITED.

TO THE DEGREE UNCERTAINTY OVER FUTURE PRICES -- RELATED EITHER TO DOWNWARD PRESSURE FROM MARKET DEVELOPMENTS OR DELIBERATE MANIPULATION BY PRODUCERS -- IS INHIBITING INVESTMENT TO DEVELOP NEW ENERGY, GOVERNMENT INTERVENTION MAY BE DESIRABLE.

V. IMPLICATIONS OF GOVERNMENT ACTION

OUR GOVERNMENTS ARE AWARE OF THE BENEFITS OF FREELY FUNCTIONING MARKETS. FOR MOST, INTERFERENCE IN THE MARKET IS UNDERTAKEN RELUCTANTLY AND ONLY FOR COMPELLING REASONS.

POLICIES TO PROTECT ENERGY INVESTMENTS AGAINST WORLD PRICE REDUCTIONS HAVE THE POTENTIAL FOR DISTORTING WORLD TRADE PATTERNS (IF WORLD PRICES DROP BELOW THE LEVEL OF PROTECTION) AND COULD DISTORT ECONOMIC ALLOCATION WITHIN ECONOMIES. ADDITIONALLY, IN THE CASE OF A SHARP DECLINE IN THE WORLD PRICE OF OIL, NON-PARTICIPATING COUNTRIES COULD GAIN A COMPETITIVE ADVANTAGE OVER IEA MEMBERS WHICH HAD UNDERTAKEN TO SUPPORT PRICES AT A RELATIVELY HIGHER LEVEL.

VI. ALTERNATIVE APPROACHES

CONCEPTUALLY, POLICY OPTIONS FALL INTO FOUR GENERAL CATEGORIES:

1) DO NOTHING

2) GENERAL MEASURES

3) SPECIFIC MEASURES

4) BLEND (2) AND (3)

DOING NOTHING IMPLIES COMPLETE RELIANCE ON THE MARKET MECHANISM. IT REQUIRES NO GOVERNMENT FUNDING AND LEAVES

THE ECONOMY IN A POSTURE TO BENEFIT FULLY FROM ANY DECLINE IN THE WORLD PRICE OF OIL. PRIVATE COMPANIES COULD, OF COURSE, UNDERTAKE ANY INVESTMENTS FELT APPROPRIATE
CONFIDENTIAL
CONFIDENTIAL

ON A PURELY COMMERCIAL BASIS. THIS APPROACH WOULD NOT HELP, HOWEVER, TO BRING ABOUT A PRICE DECLINE NOR DOES IT CONTRIBUTE TO A REDUCTION IN OUR RELIANCE ON IMPORTED OIL OR TO OUR OBJECTIVE OF GREATER COOPERATION AMONG OIL CONSUMING COUNTRIES. PRESUMABLY, SUCH A DECISION WOULD BE BASED ON A JUDGEMENT THAT THE RISK OF LOWER PRICES IS NOT A SIGNIFICANT CONSTRAINT ON INVESTMENT AND THAT NO GOVERNMENT ACTION IS NEEDED. IT IS DIFFICULT TO SUPPORT THIS JUDGEMENT EMPIRICALLY, HOWEVER, AND THE PENALTY FOR BEING WRONG, I.E. THE LOSS OF SUBSTANTIAL NEW ENERGY WHICH MIGHT OTHERWISE BE PRODUCED, COULD BE VERY LARGE.
GENERAL MEASURES, APPLIED THROUGH SOME FORM OF PRICE MAINTENANCE, ARE IN SOME CASES ADMINISTRATIVELY EASY, BUT THEY MAY EITHER RAISE ENERGY PRICES IMMENDIATELY OR PRE- VENT THE ECONOMY FROM BENEFITING FULLY FROM A FUTURE DE- CLINE IN PRICES, OR BOTH. (IT CAN BE ARGUED,HOWEVER, THAT, OVER THE LONGER TERM, EXCESSIVELY LOW ENERGY PRICES COULD IMPACT ADVERSLY ON OUR CONSERVATION OBJECTIVES.) ALSO, POLICIES TO INFLUENCE PRICE LEVELS CANNOT BE APPLIED SELECTIVELY; SUPPORT FOR THE PRICE OF A MARGINAL FORM OF ENERGY IS GENERALLY TRANSMITTED TO THE PRICES OF ALL ENERGY FORMS TO THE EXTENT SUBSTITUTION IS POSSIBLE. WHILE PRESENTING A PROBLEM OF WINDFALL PROFITS FOR TRADI- TIONAL PRODUCTION, THESE GENERALIZED HIGH PRICES DO SERVE TO REDUCE ENERGY DEMAND AND THEREBY PROVIDE ADDITONAL SUPPORT FOR OUR OBJECTIVE OF REDUCING IMPORTS.

THESE GENERAL MEASURES COULD BE APPLIED THROUGH A HIGH-PRICE MODEL OR A LOWER-PRICE MODEL:

-- THE HIGH-PRICE MODEL WOULD SET PRICE PROTECTION IN THE NEIGHBORHOOD OF CURRENT MARKET LEVELS. THIS MODEL WOULD PROVIDE STRONG STIMULUS FOR THE DEVELOPMENT OF NEW SUPPLIES. BUT IT MIGHT HAVE

ADVERSE CONSEQUESNCES FOR WORLD TRADE PATTERNS
AND THE EFFICIENCY OF OUR ECONOMIES, AND IT COULD
ENCOURAGE OPEC COUNTRIES TO MAINTAIN HIGH PRICES,
AT LEAST FOR THE IMMEDIATE FUTURE.

-- THE LOWER-PRICE MODEL, WITH PROTECTION SET
CONFIDENTIAL
CONFIDENTIAL

SUBSTANTIALLY BELOW THE CURRENT MARKET PRICE BUT
WELL ABOVE THE PRICE BEFORE 1973, WOULD LARGELY
REDUCE THE PROBLEMS CITED IN THE FOREGOING MODEL.
NEVERTHELESS IT WOULD CREATE A "SAFETY NETWORK"
FOR INVESTORS AND BE UNDERSTOOD AS A "DUMPING"
LIMIT FOR OPEC OIL.
SPECIFIC MEASURES BENEFIT DESIGNATED INVESTMENTS
AND THEREIN LIES THEIR PRINCIPAL ADVANTAGE AND DIS-
ADVANTAGE. THE ADVANTAGE IS THAT ONLY CERTAIN HIGH COST
SOURCES OF ENERGY NEED RECEIVE SUCH OFFICIAL ENCOURAGE-
MENT AND, THEREFORE, WINDFALL PROFITS ARE NOT CREATED
ELSEWHERE IN THE INDUSTRY. ALSO THE WHOLE ECONOMY IS
NOT COMMITED TO HIGH-PRICED ENERGY. THIS SYSTEM ALSO
LENDS ITSELF TO LINKING A SHARING OF BENEFITS TO A SHARING
OF BURDENS ASSOCIATED WITH ANY PROJECT. THE DISADVANTAGE
IS THAT THE PROCESS OF SELECTING THE ACTIVITIES TO BE
SUPPORTED AND STRUCTURING THE RELATIONSHIP BETWEEN GOVERN-
MENT AND THE INDUSTRY REQUIRES CAREFUL ADMINISTRATIVE
ATTENTION. SPECIFIC MEASURES MIGHT BE EMPLOYED, FOR
EXAMPLE, UNDER A FRAMEWORK OF COMMITMENTS ESTABLISHED BY
ON INVESTMENT, ACCESS TO SUPPLY AND ACCESS TO MARKETS,
WITHIN WHICH PRIVATE COMPANIES COULD CARRY OUT JOINT
PROJECTS IN THE IEA AREA. WHEN NECESSARY TO ASSURE THE
DESIRED RATE OF DEVELOPMENT, IEA GOVERNMENTS COULD
PROVIDE THROUGH A JOINT FACILITY SELECTIVE ASSISTANCE,
IN THE FORM OF LONG-TERM PURCHASING CONTRACTS, INVEST-
MENT GUARANTEES, DEFICIENCY PAYMENTS, ETC.

A BLEND OF GENERAL AND SELECTIVE MEASURES IS A FOURTH
ALTERNATIVE APPROACH. COUNTRIES COULD AGREE TO CREATE
A SAFTETY NET TO PROTECT IEA ENERGY PRODUCTION AGAINST
COMPETITION FROM IMPORTED OIL. FOR EXAMPLE, IEA COUNTRIES
COULD COMMIT THEMSELVES FOR A FIXED PERIOD OF TIME NOT
TO ALLOW IMPORTED OIL TO BE SOLD DOMESTICALLY AT LESS
THAN A COMMON AGREED PRICE. THEY COULD EMPLOY WHATEEVER
COMBINATION OF TARIFFS, TAXES AND OTHER MEASURES THEY
MIGHT CHOOSE TO MEET THIS COMMITMENT. THE AGREED PRICE
COULD BE FIXED AT A LEVEL WHICH WOULD SUBSTANTIALLY REDUCE
PRICE RISK FOR THAT PORTION OF POTENTIAL 1985 ENERGY SUP-
PLY DETERMINED TO BE ESSENTIAL TO ACHIEVE THE IEA OBJECTIVE
OF REDUCED IMPORT DEPENDENCE.
CONFIDENTIAL
CONFIDENTIAL

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006

SIMULTANEOUSLY, ESSENTIAL INVESTMENT IN HIGHER COST PROJECTS SUCH AS SHALE, TAR SANDS AND THE SYNTHETICS COULD BE STIMULATED THROUGH SPECIFIC MEASURES ESTABLISHED UNDER A JOINT FACILITY OF THE TYPE DESCRIBED ABOVE.

SUCH A TWO TIER APPROACH WOULD OFFER CONSIDERABLE FLEXIBILITY. YET IT WOULD MEET THE PROBLEM OF INVESTMENT EXPOSURE TO PRICE RISK AND FIRMLY COMMIT THE IEA TO A PROGRAM OF GREATER ENERGY SELF-SUFFICIENCY.

APPENDIX
PROS AND CONS OF POLICY OPTIONS TO ACCELERATE DEVELOPMENT
GENERAL MEASURES

I. UNIT TARIFF

DESCRIPTION: A SIMPLE TARIFF OF A SPECIFIED AMOUNT WOULD BE COLLECTED ON EACH BARREL OF IMPORTED CRUDE OIL AND PETROLEUM PRODUCT.
PRO: (1) ADMINISTRATION OF THIS PROGRAM WOULD BE RELATIVELY SIMPLE. THE INTERNAL MARKET WOULD BE THE PRIMARY MECHANISM FOR ALLOCATING INVESTMENT FUNDS.
(2) THE DOMESTIC ECONOMY WOULD RECAPTURE MOST OF THE COSTS OF THIS APPROACH.
CON: (1) A TARIFF WOULD CAUSE AN IMMEDIATE INCREASE IN THE COST OF OIL TO CONSUMERS. (2) IT WOULD NOT DISCRIMINATE AMONG INVESTMENTS IN DOMESTIC ENERGY AND WOULD, THEREFORE, PERMIT WINDFALL PROFITS IN CONVENTIONAL OIL AND GAS PRODUCTION. (3) AS TOTAL IMPORT PRICE WOULD VARY WITH EXPORTERS' PRICES, THE LEVEL OF PROTECTION PROVIDED DOMESTIC PRODUCTION COULD FLUCTUATE. (4) COUNTRIES IN THE EC WOULD HAVE TO ADOPT A UNIFORM POLICY ON ANY TARIFF.

II. AD VALOREM TARIFF

DESCRIPTION: A TARIFF CALCULATED AS A PERCENTAGE OF THE PRICE OF IMPORTS WOULD BE COLLECTED ON EACH BARREL OF IMPORTED CRUDE OIL OR PETROLEUM PRODUCT.
PRO: OFFERS SAME ADVANTAGES AS THE UNIT TARIFF (SIMPLE ADMINISTRATION AND ECONOMY RECAPTURES COSTS). AS TARIFF

VARIES IN PROPORTION TO PRICE, LOWER PRICED IMPORTS WOULD BE PREFERRED OVER HIGHER PRICED IMPORTS. THEREFORE, IT WOULD PRIVIDE A MARKETING INCENTIVE FOR INDIVIDUAL FOREIGN EXPORTERES TO LOWER THEIR PRICES.
CON: DISADVANTAGES ARE ALSO SIMILAR, (INCREASED ENERGY COST TO THIS CONSUMER, POTENTIAL WINDFALL PROFITSPOTEN-

TIALLY FLUCTUATING LEVEL OF PROTECTION, EC REQUIREMENT).
AS COMPARED WITH A UNIT TARIFF, AN AD VALOREM TARIFF
OFFERS LESS PROTECTION AGAINST "DOWNWARD PRICE RISK",
BECAUSE IT FALLS WITH PRICES.

III. VARIABLE LEVY

DESCRIPTION: THE AMOUNT OF TARIFF CHARGED IMPORTS WOULD
BE ADJUSTED AS NECESSARY TO MAINTAIN A TARGET LEVEL
OF IMPORT COST EVEN IF PRICES CHARGED BY FOREIGN SUPPLIERS
VARIED. COUNTRIES WOULD AGREE TO A GUIDE OR TARGET
PRICE; EACH WOULD CHOOSE ITS OWN METHOD OF IMPLEMENTATION.
PRO: (1) SAME AS PRO (2) OF UNIT TARIFF (ECONOMY RE-
CAPTURES COSTS). IF SUPPLIERS REDUCED THEIR PRICES,
REVENUES WOULD INCREASE CENT-FOR-CENT CAPTURING ALL OF THE
ECONOMIC AND PAYMENTS BENEFITS FOR THE DOMESTIC ECONOMY.
(2) UNLIKE UNIT OR AD VALOREM TARIFFS, A VARIABLE LEVY

NEED NOT CAUSE AN IMMEDIATE INCREASE IN THE COST OF IM-
PORTS TO CONSUMERS, PROVIDED IT IS NOT TARGETED ABOVE
THE COST OF CURRENT IMPORTS (3) LEVEL OF PROTECTION OF
DOMESTIC PRODUCTION WOULD BE STABLE.
CON: (1) FOREIGN SUPPLIER HAVE NO MARKETING INCENTIVES
TO LOWER PRICES. (2) SAME AS CONS (2) AND (4) OF UNIT
TARIFF (POTENTIAL WINDFALL PROFITS AND EC REQUIREMENTS).
(3) WOULD THREATEN COMPETITION WITHIN ECONOMIES.
(4) DISTORTIONS AMONG MEMBERS COUNTRIES ECONOMIES MIGHT
BE INEVITABLE UNLESS THEIR CURRENCIES WERE LINKED BY
FIXED EXCHANGE RATES.

IV. UNIT QUOTA

DESCRIPTION: A UNIT LIMIT IS SET COUNTRY-BY-COUNTRY ON
THE VOLUME OF IMPORTS OF CRUDE OIL AND PETROLEUM PRODUCTS.
PRO: (1) THIS APPROACH PUTS A CLEAR UPPER LIMIT ON THE
CONFIDENTIAL

EXTENT TO WHICH THE DOMESTIC ECONOMY IS DEPENDENT UPON
IMPORTS, REGARDLESS OF PRICE OR OTHER DEVELOPMENTS ABROAD.
CON: (1) SAME AS CON (2) OF UNIT TARIFF (WINDFALL PRO-
FITS). (2) ADMINISTRATION OF A QUOTA REQUIRES A BUREAU-
CRATIC MECHANISM FOR ALLOCATING AVAILABE IMPORTS.
(3) REDUCES INCENTIVES FOR AN OPEC PRICE DECREASE.

V. VALUE QUOTA

DESCRIPTION: A LIMIT IS SET ON THE TOTAL VALUE OF
IMPORTS OF CRUDE OIL AND PETROLEUM PRODUCTS.
PRO: (1) THIS APPROACH PUTS A CLEAR UPPER LIMIT ON THE
PAYMENTS BURDEN AND INCOME TRANSFER ASSOCIATED WITH OIL
IMPORTS. (2) IT CAPTURES FOR THE DOMESTIC ECONOMY THE

FULL BENEFITS OF A REDUCTION IN THE SUPPLY PRICE OF IMPORTED OIL.
CON: (1) AS LONG AS FOREIGN SUPPLIERS MAINTAIN THEIR PRICE-SETTING CARTEL, AN IMPORTING COUNTRY WHICH LIMITS THE AMOUNT IT WILL SPEND ON IMPORTS IS AT THE SUPPLIERS' MERCY AS TO THE QUANTITY OF IMPORTS. (2) THIS APPROACH WOULD REQUIRE A BUREAUCRATIC MECHANISM FOR ALLOCATING AVAILABLE IMPORTS. (3) OFFERS NO PROTECTION AGAINST DOWNWARD PRICE RISK

SPECIFIC MEASURES

VI. SUBSIDIES

DESCRIPTION: INCOME IS TRANSFERRED FROM THE GOVERNMENT TO DOMESTIC ENERGY SUPPLIERSOR CONSUMERS, THROUGH DIRECT PAYMENTS OR PREFERENTIAL TAX TREATMENT. SUBSIDIES MAKE POSSIBLE LOWER REAL TRANSACTION PRICES FOR THE SALE OF SUBSIDIZED ENERGY AND THEREBY ENCOURAGE NEW DOMESTIC ENERGY PRODUCTION.
PRO: (1) THIS APPROACH COULD BE USED TO ENCOURAGE SPECIFIC INVESTMENTS AND DOES NOT, THEREFORE, INFLATE THE PRICE OF ALL ENERGY OR CREATE WINDFALL PROFITS IN CONVENTIAL OIL AND GAS PRODUCTION.
CON: (1) SUBSIDIES WOULD REQUIRE AN ELABORATE ADMINISTRATIVE MECHANISM TO EVALUATE NEEDS, DETERMINE LEVELS AND ASSURE PRIVATE SECTOR ACTIVITIES COMMENSURATE WITH THE

LEVEL OF SUBSIDY. (2) POLITICALLY, SUBSIDIES COULD BE INTERPRETED AS AN AID-TO-INDUSTRY. (3) SUBSIDIES WOULD HAVE TO BE FINANCED FROM GOVERNMENT FUNDS.

VII. INVESTMENT INSURANCE

DESCRIPTION: GOVERNMENT INSURANCE WOULD BE AVAILABLE TO PROTECT INVESTMENTS IN SPECIFIED ENERGY PROJECTS AGAINST DOWNWARD PRICE RISK. SUCH INSURANCE COULD BE PROVIDED EITHER ENERGY PRODUCERS OR FINANCIAL INSTITUTIONS. IT WOULD GUARANTEE REPAYMENT OF SOME PORTION OF AN ENERGY INVESTMENT OR LOAN IF THE INVESTMENT LATER PROVED UNECONOMIC BECAUSE WORLD PRICES FOR PETROLEUM FELL BELOW AN AGREED LEVEL.
PRO: (1) SAME AS PRO (1) OF SUBSIDIES (NO GENERAL ENERGY PRICE INCREASE). (2) WOULD LEAVE ALL DECISIONS OTHER THAN DOWNWARD PRICE RISK TO THE MARKET AND, THEREFORE, PERMIT COMPETITIVE EFFICIENCY AND MINIMIZE BUREAUCRATIC OVERSIGHT (3) WOULD COST GOVERNMENTS NOTHING UNLESS AND UNTIL FOREIGN SUPPLIERS LOWERED PRICES. AT THAT TIME, GOVERNMENT COULD CHOOSE TO PAY INSURANCE VALUE OR TO PROVIDE SOME OTHER PROTECTION IN THE FORM OF PRICE MAINTENANCE OR

OTHER INCOME MAINTENANCE MEASURES. (4) BY ITSELF, INVESTMENT INSURANCE WOULD NOT BE POLITICALLY VULNERABLE TO THE CHARGE THAT IT WAS A "GOVERNMENT POLICY TO KEEP OIL PRICES HIGH."
CON: (1) INVESTMENT INSURANCE WOULD REQUIRE AN ADMINISTRATIVE MECHANISM TO DETERMINE WHICH INVESTMENTS WERE TO BE INSURED, HOW THEY WOULD BE VALUED AND WHEN THE INSURANCE COULD BE COLLECTED. (2) IN CASE OF PAYMENT OF CLAIMS WORTH MORE THAN THE AMOUNT OF FEES COLLECTED, INSURANCE WOULD HAVE TO BE FINANCED FROM GOVERNMENT FUNDS.

VIII. DEFICIENCY PAYMENTS

DESCRIPTION: THE GOVERNMENT WOULD UNDERTAKE DIRECTLY OR THROUGH GUIDELINES TO INDUSTRY, TO COMPENSATE DOMESTIC ENERGY SUPPLIERS BY INCOME TRANSFERS IF IMPORTED OIL PRICES FELL BELOW A SPECIFIED LEVEL. PAYMENTS WOULD BE EQUIVALENT TO THE SHORTFALL IN PRICES.
CONFIDENTIAL
CONFIDENTIAL

PRO: (1) SAME AS PRO (1) OF SUBSIDIES (NO GENERAL ENERGY PRICE INCREASES). (2) PROGRAM WOULD COST GOVERNMENTS NOTHING UNLESS AND UNTIL PRICES FELL BELOW SPECIFIED LEVEL.
CON: (1) PROGRAM WOULD REQUIRE AN ELABORATE ADMINISTRATIVE MECHANISM TO EVALUATE NEEDS AND ASSESS PERFORMANCE. (2) DEFICIENCY PAYMENTS WOULD HAVE TO BE FINANCED FROM GOVERNMENT FUNDS OR INTER-INDUSTRY PRICE SHIFTS.

IX. LONG-TERM SUPPLY CONTRACTS

DESCRIPTION: GOVERNMENTS OR INDUSTRY WOULD ENTER INTO LONG-TERM CONTRACTS WITH SUPPLIERS IN IEA COUNTRIES TO BUY ENERGY AT A SPECIFIED PRICE. THESE CONTRACTS COULD BE EXPRESSED AS FIRM COMMITMENTS TO TRADE AT A FUTURE DATE OR AS "PUTS," I.E. COMMITMENTS TO BUT AT A CERTAIN PRICE AT THE DISCRETION OF THE SELLER.
PRO: (1) SUCH CONTRACTS WOULD BE CLEAR AND EXPLICIT GUARANTEES AGAINST "DOWNSIDE RISK/DURING THEIR TERM (2) THIS APPROACH COULD DISCRIMINATE AMONG SOURCES AND THEREBY AVIOD CREATING WINDFALL PROFITS.
CON: (1) WOULD REQUIRE AN ADMINISTRATIVE MECHANISM TO DISPOSE OF ENERGY PURCHASED BY GOVERNMENTS (2) IF ENERGY PRICES FELL BELOW LONG-TERM CONTRACT PRICES, GOVERNMENTS WOULD HAVE TO FINANCE THE DIFFERENCE OR RETAIN THE PUBLIC PURCHASES AS STOCKPILES.(3) PROGRAM WOULD NOT INSULATE IEA ECONOMIES AGAINST IMPORTS IF INTERNAIONAL PRICES FELL BELOW PRICE OF LONG-TERM CONTRACTS. (4) WOULD INCREASE PRESSURES FOR LONG-TERM CONTRACTS IN OTHER COMMODITIES. KISSINGER

CONFIDENTIAL

<< END OF DOCUMENT >>

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006

Message Attributes

Automatic Decaptioning: X
Capture Date: 26 AUG 1999
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PUBLICATIONS, NUCLEAR ENERGY, PETROLEUM, SUPPLIES
Control Number: n/a
Copy: SINGLE
Draft Date: 16 JAN 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: buchantr
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975STATE010394
Document Source: ADS
Document Unique ID: 00
Drafter: EB/ORF/FSE:SWBOSWORTH:PDTAYLOR:MEP
Enclosure: DG ALTERED
Executive Order: N/A
Errors: n/a
Film Number: D750016-0402
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750189/baaaagne.tel
Line Count: 543
Locator: TEXT ON-LINE, TEXT ON MICROFILM
Office: ORIGIN EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 10
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: buchantr
Review Comment: n/a
Review Content Flags:
Review Date: 13 MAY 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <13 MAY 2003 by BoyleJA>; APPROVED <30 SEP 2003 by buchantr>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: n/a
TAGS: ENRG
To: OECD PARIS
BERN
BONN
TOKYO
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006